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Paper Merchant Performance

Sales Up
Profits Up

MN

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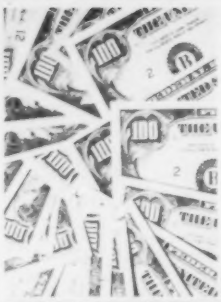

A Strong Year for NPTA Paper Merchants

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Cover photo courtesy of Associated Equipment Distributors

Paper Merchant Performance: Sales Up, Profits Up

Early each year, NPTA conducts its most comprehensive survey of the paper distribution industry—the Performance Analysis Report (PAR). Major findings are presented here, but a wealth of detailed information is contained in other sources such as the Paper Merchant Performance *book and Industry Performance Surveys. This report was prepared by George Cain, NPTA's Director of Research.*

The Association's 53rd Annual Performance Analysis Report (PAR) has reached NPTA members indicating that 1987 turned out to be a banner year. This is the 12th year that Management Foresight, Inc. (MFI), of Columbus, OH, has prepared the PAR survey for NPTA members.

The composite results, sent to NPTA show:

- Total sales by PAR participants rose 27% (from $9.4 billion in 1986 to a record $11.9 billion)
- Profit Before Tax as a percent of sales rose for all merchant groups:
  - 2.50% for Printing Merchants (from 2.18% in 1986)
  - 2.19% for Industrial Merchants (from 2.08% in 1986)
  - 2.51% for Dual Merchants (from 2.32% in 1986)
- ROTA (Return on Total Assets) also increased:
  - 10.38% for Printing Merchants (from 8.59% in 1986)
  - 8.45% for Industrial Merchants (from 8.18% in 1986)
  - 10.50% for Dual Merchants (from 9.03% in 1986)
- RONW (Return on Net Worth, or Net Profit Before Tax to Net Worth) also rose:
  - 20.65% for Printing Merchants (from 17.41% in 1986)
  - 18.04% for Industrial Merchants (from 15.21% in 1986)
  - 16.06% for Dual Merchants (from 14.52% in 1986).

This article summarizes the recently released *Paper Merchant Performance*, a yearly report of U.S. paper merchants' management of key aspects of their businesses—namely, sales, profitability, personnel productivity, operating expense control and asset management. NPTA *never* sees individual company data or reports, but does receive a summary from MFI of the aggregate performance.

PAR is a comprehensive annual financial analysis designed to allow NPTA merchants to improve their profitability. Merchants filled out a multi-page questionnaire early in 1988 and submitted it to MFI for processing (250 different questionnaires in 1988 for 1987 operations). MFI then sent each merchant a customized report showing their performance on as many as 300 different measures, *compared* to industry-wide performance averages, medians and ROTA groups.

Sales Increases for 1987

There were significant sales increases for all merchants in 1987. The following chart shows 10-year trends for both "raw" increases and increases adjusted for increased costs merchants had to pay for supplies. The bottom lines show the raw figures: Printing and Industrial merchants had 12.5% increases, and Dual merchants were slightly ahead at 13.7%. After adjusting for cost increases, Printing merchants still showed an 8.5% increase, Industrial merchants a 7.1% increase, and Dual merchants a 9.0% increase.

The 10-year adjusted figures demonstrate some interesting facts:

- Industrial merchants have had the steadiest (although not necessarily the highest) growth
- Printing merchants have had the greatest cumulative growth, but have had dramatically varying growth (see 1981 lows and 1984 highs)
- Dual merchants had the highest rates of increase in the 1978-1980 period, but have had the lowest growth rates every year since until 1987.

Figure 1

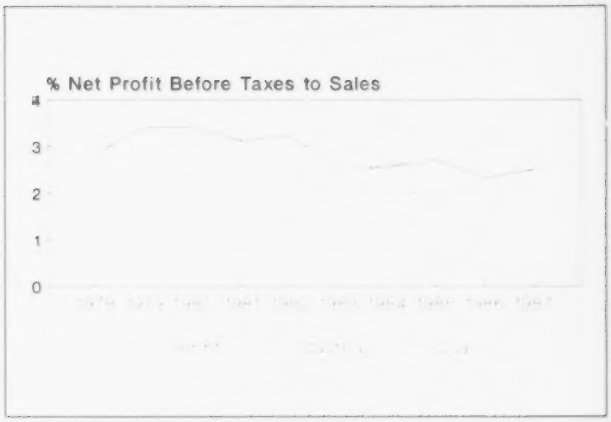


Figure 2

Net Profit to Sales

Net Profit before Tax as a percent of Net Sales is graphed in Figure 2. This measure reflects profit margin performance. Again, looking at the 10-year trends and 1987 performance, it is clear that Dual merchants have consistently been at or near the top, and Industrial merchants at the bottom. In 1987 the three merchant groups were very close together on this measure. Except for 1983, in the past there has been considerable spread between the different types of merchants.

ROTA (Return on Total Assets)

This is one of the key profitability ratios which is graphed in Figure 3. As with Profit to Sales, Dual merchants have had a pattern of being at or close to the top and Industrial merchants the lowest. Here, also, 1987 brings the three merchant groups closer together than has been common in the past.

RONW (Return on Net Worth) (Figure 4)

This measure, actually Net Profit before Taxes to Net Worth, is another key profitability measure. Dual merchants do not fare as well on this measure; they are the lowest this year. Printing merchants (who are highest for 1987) usually have the highest composite average figures. Again, the three groups are closer together than in most years in the past.

1987 Gross Margins

Gross margins in 1987, average order size, and sales paths by merchant type, along with comments about trends, can provide part of the picture of *how* merchants improved their profitability for 1987. Chart A shows some of the 1987 composite average numbers.

Printing Merchants: Direct sales had increases in both the average order size and the gross margin. Since this represents a major

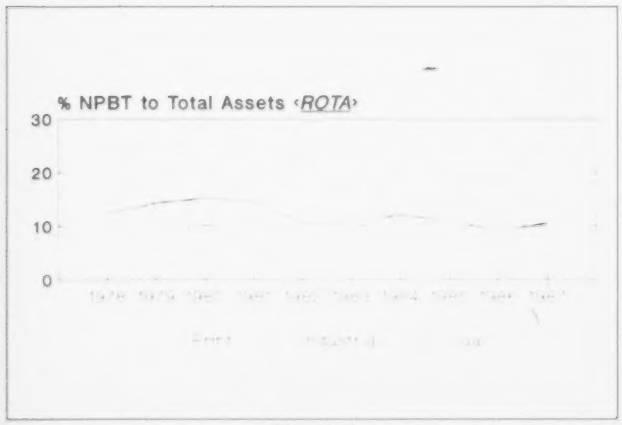


Figure 3

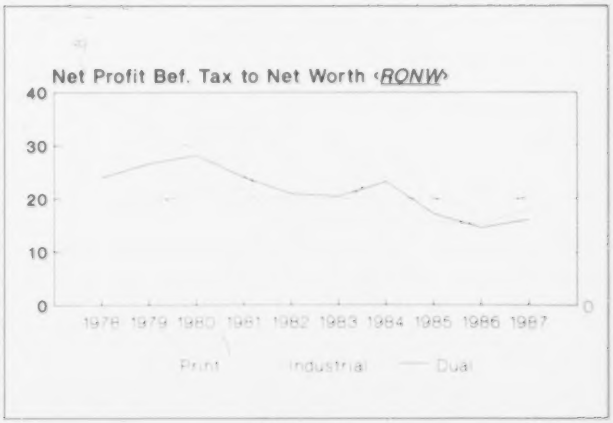


Figure 4

	Printing	Industrial	Dual
DIRECT SALES			
Average Order Size	$6,936	$1,018	$1,746
% of Total Sales	48.8%	19.5%	37.5%
Gross Margin %	6.67%	12.97%	8.04%
WAREHOUSE & *INDIRECT SALES*			
Average Order Size	$385	$256	$485
% of Total Sales	51.2%	80.5%	62.5%
Gross Margin %	22.15%	24.07%	21.29%

Chart A

Figure 5

portion of this group's business, this may be a major factor in their increased profitability.

Industrial Merchants: Warehouse and Indirect margin actually dropped from 1986, but their percent of sales in Warehouse and Indirect increased from 77.5% to 80.5%. Warehouse and Indirect sales for Industrial merchants is where their margins are highest, higher than the other merchant groups.

Dual Merchants: On the other hand, this group shows no clear pattern of being able to track their profitability to changes in these three areas. They increased their percent of Direct sales from 33.1% to 37.5%, had a 13% drop in the average direct order size, and had a drop in their direct gross margin from 9.4% to 8%. In addition, they had a small drop in their Warehouse and Indirect Gross Margin.

Sales and Gross Margin Performance

Sales and Gross Margin Performance Measures are a key part of the PAR survey. NPTA merchant expenses, except for the cost of goods sold, are heavily dependent on sales. The PAR survey provides merchants with a great variety of performance measures related to sales performance and gross margin performance. Many of these measures demonstrate, through their variation, some basic difference in the way Printing merchants and Industrial merchants run their businesses (Dual firms usually fall in the middle in these measures). Despite this variation, other measures which focus more on bottom-line performance show much less variation.

Sales and Gross Profit per Employee is one area where the variation shows up (tracked in Figure 5). Industrial merchants, over a five-year period, have consistently had the lowest Sales and Gross Profit, Printing merchants the highest, with Dual merchants falling between. A sales measure illustrating the similarities is shown in Figure 6. This provides a five-year history of Sales and Selling Expenses as a per-

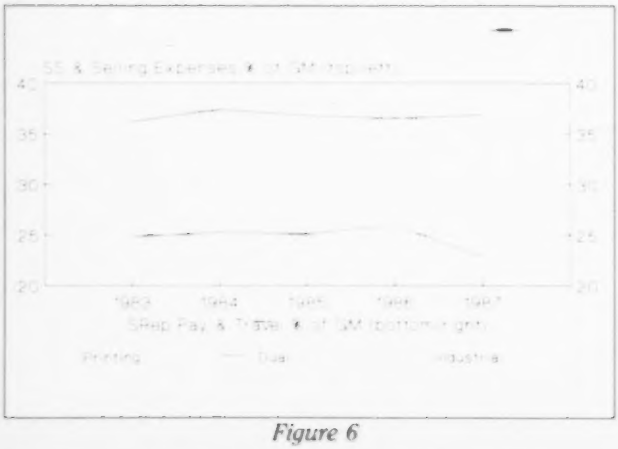
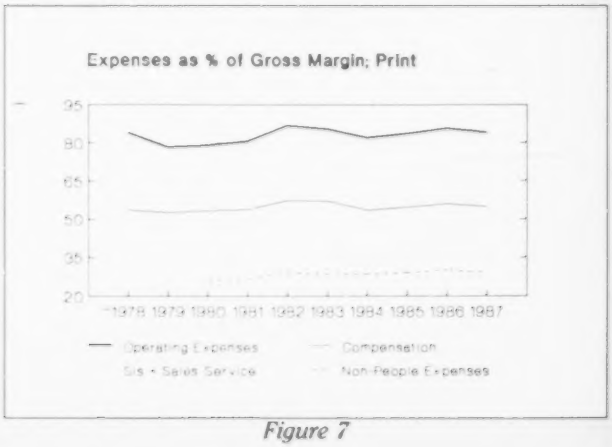


Figure 6



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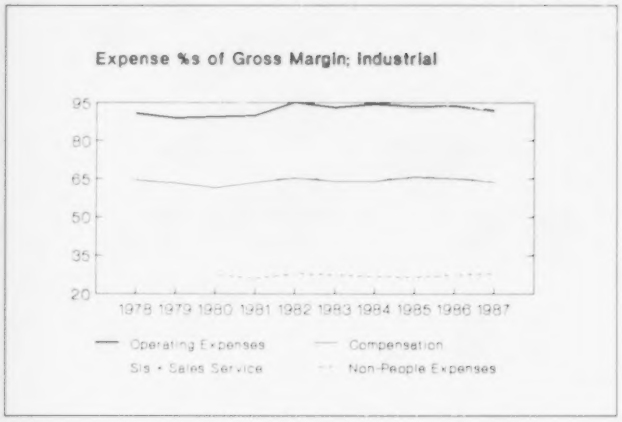

Figure 8

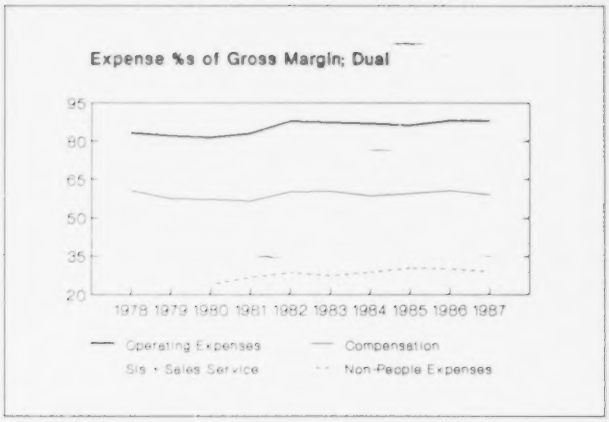

Figure 9

cent of Gross Profit. In 1987 all three merchant groups were very close together, and the five-year history shows that Dual merchants, who began the period with the lowest percent of gross margin consumed by these costs, are now approaching the Industrial merchants' percentage.

Expenses as a Percent of Gross Margin

Expenses as a percentage of Gross Margin can provide major indications of reasons for good or bad overall performance. Figures 7, 8, and 9 provide a five-year history of various expenses as a percent of Gross Margin: Total Operating Expenses, Total Compensation, Sales and Sales Service Costs, and Non-people Expenses.

Higher Profitability Groups

One of the ways MFI helps merchants work on improving their profitability is by identifying three groups of merchants—a High ROTA (Return on Total Assets) group, a Low ROTA group, and the Middle ROTA group. Examples of High ROTA measures in several key performance areas appear in Chart B.

Measure	Composite Mean	High ROTA
Industrial		
- Payroll as % of GM	55.56%	51.52%
- Net Sales per Employee	$254	$275
- NPBT to Sales	2.19%	4.55%
Printing		
- Payroll as % of GM	47.75%	45.78%
- NPBT to Sales	2.50%	5.95%
- Total Operating Expense as % of Gross Margin	84.01%	76.08%
Dual Merchants		
- Gross Margin per Employee	65.49%	71.95%
- Net Sales per Employee	$589	$454

Chart B

Paper Merchant Performance provides breakdowns of performance into sales volume groups, sales path groups (Direct vs Warehouse and Indirect) and NPTA regions. Examining the High ROTA performance measures and the performance of these various groups, there are indications that High ROTA performers were more likely to be in the following groups:

Printing:
- Larger firms ($55 million in sales and over)
- Firms with over 65% direct sales
- Firms in regions 1, 5 and 8

Industrial:
- Firms in regions 4 and 5

Dual:
- Larger firms ($65 million in sales and over)
- Firms with over 35% in direct sales
- Firms in regions 4 and 8

This article has summarized the *Paper Merchant Performance* report which provides aggregate performance statistics for the paper distribution industry through NPTA members' use of the annual PAR survey. This report is published annually by NPTA, is available free to merchant distributors who are members, and can be purchased by others who would find the information useful in their work with the paper distribution industry. For further information about *Paper Merchant Performance* or the PAR survey, contact NPTA's Research Department at 516-829-3070.

NAW Insurance Program: Quality Health Coverage

At a time when health coverage costs are sky-rocketing and quality of care is declining, NAW's Health Insurance plan offers efficiency, reliability and value.

by Bob Larsen
President, NAW Insurance Administration Center
Washington, D.C.

As Yogi Berra once said, "It's déjà vu all over again!" We had hoped never to return to a period such as 1979-1982 when employee health care costs experienced annual double-digit increases; however, that ugly reality is once again upon us.

There is no single cause for this damage to the bottom line of most wholesaler-distributors. Miracle medicine, rising labor costs, government "cost-shifting," COBRA, AIDS—the list is extensive. Regardless of the causes, the hard facts point to sharply higher medical insurance rates.

The NAW-sponsored Wholesaler-Distributor's Insurance Program, underwritten by New York Life, has enjoyed unusual rate stability over the last five years. Price increases have averaged less than 10%. Thus, even though rates are up, the NAW Comprehensive Major Medical Plan still offers rate and/or coverage advantages over most other fully-insured plans.

Many NAW member firms have turned to alternate insurance mechanisms (HMOs, PPOs, self-insurance, etc.) only to find that the quality of care is materially reduced, personal choice minimized and costs ultimately equaled or were higher than a fully-insured plan.

The pain being experienced by member firms knows no geographic bounds, affects large as well as small firms, and many times has no relationship to prior claims experience. In the final analysis, these are the realities:

- It is frightfully expensive to be sick or injured. Hospital costs can exceed $1,000 per day.
- Comprehensive health care protection is no longer a "fringe" benefit. It is a critical employee need and either the private sector will provide it, a union will demand it or the "ultimate union"—the government—will mandate it.
- Employers ultimately will get the bill.

The Wholesaler-Distributor's Health Insurance Plan has been around for more than 20 years. Its cost is competitive, expenses are kept to a minimum and its claims administration is as efficient and empathetic as any you will experience. Employee benefit professionals estimate that administrative expenses for HMOs average 18-22% of premiums (for self-insurance, 16-22%); while the NAW Comprehensive Major Medical Program has, over the past 10 years, returned more than $.90 out of each premium dollar as a paid claim.

More than 90 national wholesale trade as-

U.S. EMPLOYERS
HEALTH INSURANCE PREMIUMS

Year	Total Expenditures
1988	$138.*
1987	114.7
1986	108.0
1985	101.6
1984	96.9
1983	89.1
1982	80.3
1981	68.8
1980	59.6

The data for 1980-1987 are from the Employee Benefit Research Institute, Washington, D.C., although the figures for 1987 are projected. The 1988 estimate *, prepared by NAW, was based in part on information provided by the Health Insurance Association of America.

sociations endorse the Wholesaler-Distributors Program. A profile of insured firms discloses that:

- The "typical" member has between 10-50 employees.
- The firm had been insured by a smaller, regional health carrier that suddenly found itself in financial difficulty and raised rates 40%, 50% or more.
- Many firms had been "self-insured" and experienced savings in the first year only to find the cost of benefits go through the ceiling the second year and beyond.
- Some insured firms suddenly realize that with COBRA as well as state mandated benefit continuation laws, they better get with a large, financially sound insurance company or face the possibility of having their present coverage cancelled at a time when their options were severely limited.

Aggregate insurance costs typically are the third largest expense item on a wholesaler-disributor's P&L statement, after cost of goods sold and payroll. You can't afford to ignore the advantages of the NAW Comprehensive Major Medical Program the next time you are considering employee health care alternatives.

For more information on the Wholesaler-Distributors' Health Insurance Plan, call Holly Ribera of the NAW Insurance Administration Center at 312-297-2020.

Taking a look at your association-sponsored health care plan could prove to be one of the most cost-effective management decisions of 1988.

For more information, contact the National Association of Wholesaler-Distributors (NAW), 1725 K St. NW, Washington, DC 20006, 202-872-0885.

Young Executives Forum

NPTA's Young Executives Forum...for the Leaders of Tomorrow's Paper Distribution Industry

Join the growing number of Young Executives who are meeting the challenges of the future.

To qualify for membership you must be:

- Under 45 years of age
- A manager or executive of a paper, plastics or allied products distribution company holding membership in NPTA
- In a decision/policy making position with your company

Membership entitles you to:

- Special NPTA Convention seminars
- Mid-year executives conference including workshops, afternoon recreational activities and evening social events
- Valuable complimentary publications and news briefings
- Networking with other young industry leaders

For an application contact: Bruce Linden at NPTA 516-829-3070; or write the NPTA headquarters

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